

# INFORMATION

EXTERNAL RELATIONS

THE EUROPEAN COMMUNITY AND EAST EUROPEAN COUNTRIES

91/75

The year 1974 and the beginnings of 1975 were an important stage in the progressive implementation of EEC joint commercial policy with the State trading countries in Europe.

This note brings up-to-date the previous note No. 50/73, describing the main lines on which the Community's relations with the countries concerned have lately been developing. A separate information note is now being prepared on EEC relations with the Peoples' Republic of China.

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The statistical data for 1973 and earlier years are based on the unit of account, as used up to March 1975. Thus the unit of account of the European Community (written U.A.) was equivalent to the US dollar as it was before 1972, or around BF.50.

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Growth in East-West Trade

In 1973 the EEC trade with the east european State trading countries showed a more substantial increase than the trade with other countries.

The Community trade with the rest of the world (1) (imports plus exports) rose from U.A. 32 000 million in 1958 to U.A. 109 000 million in 1972. These are the figures for the six former Community members; and if the trade with the three new members be added in, the 1972 total becomes U.A. 136 000 million. In 1973 the corresponding figure was U.A. 175,070 million.

The trade of the Nine-nation Community with the east-european State trading countries rose from \$ 1 900 million in 1958 to \$ 9 700 million in 1972 and U.A. 12 900 million in 1973. It thus rose from 7.2 % of the world trade of the Community in 1972 to 8.1 % in 1973.

Over the period 1958-73 both imports and exports have risen more than 6-fold in value. In 1973 the total value of Community trade with the east-european countries was higher by 33 % than in the previous year. Even remembering the rise in world prices, the figures clearly indicate a greater intensity of trade. The annual growth-rates in the past five years have been between 10 % and 15 %.

Community imports from the east-european countries in 1973 were U.A. 6 242.1 million, or 32 % more than in 1972. The principal supplier to the Community is the USSR, which was responsible in 1973 for 39 % of Community imports from the east-european countries. Poland is the next largest supplier (19 %) followed by Czechoslovakia, Rumania and Hungary which supplied around 11 % each.

The imports from the east-european countries accounted in 1973 for 7.7 % of total imports into the Community. This compares with 7.1 % in the previous year and 6.6 % in 1971.

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(1) Excluding the trade of member countries with one another.

Imports to Nine EEC countries from east-european countries (U.A. million)

	<u>1958</u>	<u>1972</u>	<u>1973</u>
Albania	0.5	8.8	11.7
Bulgaria	29.5	181.3	230.2
Hungary	67.2	518.9	668.1
Poland	214.8	901.9	1182.1
Rumania	66.3	563.8	685.0
East Germany (1)	58.1	286.5	327.8
Czechoslovakia	131.3	572.7	699.5
USSR	457.1	1708.7	2437.7
<b>Total</b>	<b>1024.8</b>	<b>4724.6</b>	<b>6242.1</b>
( 1958 = 100)	100	463	609

Source : Statistical Office of the European Communities

Community exports to east-european countries in 1973 were U.A. 6 672.3 million, or 34 % more than in 1972. The shares of the individual east-european countries as customers of the Community are broadly similar to their shares as suppliers.

The share of the east-european countries in total Community exports was 8.5 % in 1973. This compares with 7.3 % in the previous year and 6.6 % in 1971.

Exports of nine Community countries to east-european countries (U.A. million)

	<u>1958</u>	<u>1972</u>	<u>1973</u>
Albania	1.9	14.4	15.0
Bulgaria	27.2	218.3	282.5
Hungary	68.4	548.5	643.9
Poland	186.6	1000.0	1686.6
Rumania	50.9	634.5	771.2
East Germany (1)	53.9	312.0	305.0
Czechoslovakia	127.3	649.5	755.6
USSR	356.0	1586.0	2212.5
<b>Total</b>	<b>872.2</b>	<b>4963.2</b>	<b>6672.3</b>
( 1958 = 100 )	100	563	756

Source : Statistical Office of the European Communities

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(1) Trade between East Germany and Federal Germany is not included in these figures.

Composition of trade between the EEC and Eastern Europe

The main part of Community imports from east-european countries consists of agricultural produce, raw materials and semi-manufactures. In 1973 manufactured goods accounted for 41.4 % of the imports into the Nine-nation Community.

The import trade was divided into the main categories in 1960 and in 1972-73 as follows :

	<u>Community of (countries) :</u>			
	<u>Six</u>	<u>Six</u>	<u>Six</u>	<u>Nine</u>
	<u>1960</u>	<u>1972</u>	<u>1973</u>	<u>1973</u>
Food, drink etc	23.3%	22.0%	21.1%	18.1%
Energy products	22.5%	18.8%	19.9%	16.8%
Raw materials	27.4%	18.8%	18.4%	19.2%
Chemicals	5.8%	4.7%	4.5%	4.5%
Machinery and transport material	3.7%	6.9%	7.1%	7.0%
Other manufactures	17.3%	27.8%	29.0%	34.4%

Between 1960 and 1973 there were material changes in the composition of the imports from State trading countries in Eastern Europe into the Six-nation Community. The proportion accounted for by food products and energy products showed some decline, while for raw materials it was more substantial and for manufactured goods there was a definite rise. For the Community of Nine, these tendencies are even more marked.

Community exports to Eastern Europe consist mainly of investment goods and consumption goods.

The exports in question in 1960 and 1972-73 were divided in the main categories as follows :

	<u>Community of (countries) :</u>			
	<u>Six</u>	<u>Six</u>	<u>Six</u>	<u>Nine</u>
	<u>1960</u>	<u>1972</u>	<u>1973</u>	<u>1973</u>
Food, drink etc	3.3%	8.4%	8.6%	8.3%
Energy products	0.3%	1.4%	1.2%	1.1%
Raw materials	6.2%	3.3%	3.4%	4.0%
Chemicals	9.7%	12.8%	12.0%	12.3%
Machinery and transport material	31.1%	39.8%	36.9%	37.1%
Other manufactures	49.3%	34.3%	37.9%	37.2%

Trade balance

In 1973 the Nine-nation Community had a surplus in its trade with the east-european countries as a whole, despite the fact that the trade with the USSR showed a deficit. This is explained by the considerable excess of imports from the Soviet Union into Great Britain.

Community trade balance with east-european countries (U.A. million)

	U.S.S.R.	Other east-european countries	Total
	<u>1973</u>	<u>1973</u>	<u>1973</u>
Imports	2,437.7	3,804.4	6,242.1
Exports	2,212.5	4,459.8	6.672.3
Balance	-225.2	+655.4	+430.2

The Common Commercial Policy

Contractual trade policy

Since January 1 1973, any negotiation in regard to trade policy with State trading countries (1) has been -- as it already was for other countries -- a joint matter to be handled exclusively by the Community.

Practically all the long-term trade agreements previously negotiated with the countries concerned by the EEC members expired on December 31 1974 (2).

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- (1) It should be pointed out that relations with the Democratic German Republic are now subject to the same Community regulation, both contractual and autonomous, which govern the relations with all State trading countries. The relations between the D.G.R. and the F.R.G. are still, of course, governed by the Treaty Protocol on internal german trade and connected problems.
- (2) The few long-term agreements still in force are due to expire on December 31 1975.

In these circumstances the Council announced in 1974, that it was willing to enter into Community trade agreements with each of the State trading countries which already had contractual relations with one or other of the Community member countries. For this purpose it drafted, as of November 7 1974, a pro forma agreement indicating the main line of possible trade agreements between the Community and any State trading countries which might be interested. During the first half of November 1974 the Commission sent copies of this draft to the State trading countries, the agreements of which with members of the Community were now due to expire.

The draft agreement envisages long-term non-preferential trade agreements with equivalent reciprocal advantages and obligations, in which the parties would express their determination to establish their trade relations in such a way as to make for expansion in the trade. The agreement would of course take into account the special features of the trade with the different countries and include provisions facilitating constructive solutions to trade problems arising between these countries and the Community. For this purpose the Community proposed the inclusion of the most-favoured-nation clause in the tariff section of the agreements, subject to the usual exceptions. Provisions concerning the agriculture sector are also not excluded. The draft provides for the formation of a joint committee and suitable safeguard machinery on the usual lines.

This offer of negotiation covers trade in all the different fields, and the Community added a proposal in regard to textiles. The arrangement of December 20 1973 regarding the international trade in textiles mentions the possibility of bilateral negotiations among the participants, with a view to the elimination of quantitative restrictions. In the absence of any reaction from the east-european countries to the general offer of negotiation, the Commission sent a letter on March 24 1975 to the east-european countries which were signatories of the arrangement (Hungary, Poland and Rumania) with a new invitation to negotiate regarding these products.

In the agricultural sector technical arrangements were entered into in earlier years between the Commission and various planned-economy countries (Bulgaria, Hungary, Poland, Rumania).

Under these arrangements the non-Community countries in question guarantee conformity to certain price minima, or "lock-gate" prices in their exports of certain agricultural products to the Community. In these cases their exports to the Community are not subject to the charges of supplementary amounts, or compensatory taxes which the Community may have introduced on the import from non-Community countries of the products concerned.

Autonomous commercial policy

Pending the negotiation of trade agreements between the Community and the various State trading countries in question, and for the purpose of maintaining the continuity of trading with these countries, the Council adopted, on March 27 1975, autonomous import systems affecting the same non-member countries<sup>(1)</sup>.

The decision of March 27 1975 establishes the quotas and other import facilities to be opened to State trading countries in 1975, by the member countries of the Community, in respect of goods subject to quota restrictions; and it defines the rules and procedures for any changes in these import systems.

Though quota restrictions still play an important part in the trade with east-european countries, progress has nevertheless been made towards liberalisation. Out of the 1 098 headings in the Common Customs Tariff, the Community liberation list for trade with these countries now comprises 859 headings (including 100 part-headings).

In regard to customs duties the Community, in conformity with the declaration of November 12 1974, is anxious not to compromise the growth in trade and is continuing to apply most-favoured-nation treatment to the State trading countries subject to the usual exceptions.

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(1) On December 2 1974, the Council had provisionally extended over the year 1975 the import system operating in 1974.

Other Community activities of interest to East European countries.

1. Cooperation agreements

On a proposal by the Commission, the Council decided on July 22 1974 to introduce an information and consultation procedure for cooperation agreements between Community countries and non-Community countries. Since most of the member countries have entered into agreements of this type with the various east-european countries, the Council decision is of special interest in this connexion.

The new procedure enables the Commission and the member countries to obtain information not only about the formal content of cooperation agreements, but also about the measures and commitments contemplated in connexion with them. Consultation may be held either on the request of the member country or on the initiative of the Commission.

The target is three-fold. In the first place guarantees are needed that the cooperation agreements conform to the common policies, especially the commercial policy; secondly, the procedure should improve the mutual information and co-ordination between member countries; and thirdly, it will point the way to possible action by the Community in promoting further cooperation.

2. Export credit policy

The policy of export credits and credit-assurance (1) is of decisive importance for the future policy of the Community. At the end of 1973 the West had granted more than \$ 10 000 million of credit to Comecon countries for periods exceeding five years. In 1974 it is expected the figures will show a further increase of \$ 3000 million. As lately as 1963 these credits amounted to no more than \$ 45 million. More than half of them were granted to USSR.

The Commission would like to check the over-bidding in export credits indulged in not only by Community countries, but also by other industrial countries of the West.

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(1) Credit assurance is a method by which the exporter secures insurance against possible non-payment when goods are sold on credit. The cover includes both political and commercial risks.



Existing consultation and information procedures in the Community provide for exchanges of information between member countries and the Commission. Though the attempt to introduce a real Community exports credits policy has not yet borne fruit, it is being actively pushed forward, both inside the Community itself and between the Community and outside countries.

3. Generalised preferences and the East European countries (1)

On January 31 1972 the Rumanian government sent a Note to the Council of the European Communities asking for its country to be given the benefit of generalised preferences. This request needs to be considered as part of the regularisation of relations between Rumania and the EEC; and on June 4 1973 the Council decided in principle that Rumania be included as from January 1 1974 among the beneficiaries of the generalised preferences granted by the Community. It was understood that adequate arrangements would have to be made to take into account the special case of this country.

The criteria taken into account are concerned with Rumania's level of development and economic structure, on the same lines as those applied to other countries which have the benefit of the generalised preferences.

In 1975, when the system of generalised preferences came up for its annual revision improvements were made in its economic impact in Rumania.

Relations between the Community and Comecon

Following the démarche made in Copenhagen on August 27 1973 by M. Faddeev, Secretary of the Council for Mutual Economic Assistance (Comecon) to M. Nørgaard, President in Office of the Council of Ministers, the Council stated on September 20 1973, that it was to the Commission that the approach should be made. In May 1974 M. Faddeev was reminded of this reply by the F.R.G. Ambassador in Moscow; and on September 16 M. Faddeev sent a letter to the President of the Commission, with an invitation to go to Moscow to discuss possible forms and measures for relations between the two organisations. The Commission reply

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(1) Since July 1 1971 the Community has been applying a system of customs franchise, known as "generalised preferences" in favour of manufactured and semi-finished goods exported from developing countries.

accepted the idea of a visit to Moscow at the appropriate time, either by the President or by the Vice President specially concerned with external relations; but it proposed that meantime preparatory talks should be opened at the official level.

Conformably to this proposal a Commission delegation headed by M. Wellenstein, Director-General for External Relations had initial talks with the Comecon Secretariat in Moscow on February 4-6 1975. These talks were aimed to familiarise the two delegations with each others work and activities and enquire as to the fields in which an exchange of information and possibly regular contacts would usefully be set up between the Commission and the Comecon Secretariat.

Useful progress was secured at these first conversations, and the two delegations agreed that the work should be continued in a further meeting. The Commission delegation invited the Comecon representatives to come to Brussels for the next discussion; and the reply of the Secretariat and its suggestions regarding the date are now awaited.

The Moscow conversations enabled the Commission delegation to ask a number of questions about the competence and functioning of the Comecon Secretariat, and to give an account of the competence structure in the Community. The talks also provided an opportunity for a description of the Commission ideas on the process of general regularisation of relations between the Community and Eastern Europe, of which contact between the Comecon Secretariat and the Commission was only one aspect.

On February 18 1975 Sir Christopher Soames, Commission Vice-President responsible for external relations, told the European Parliament of the Commission's attitude. It was, he said, extremely pleased with the first contacts it had made with the Comecon Secretariat, and the desire of the east-european countries to have normal relations with the Community. "The Community would thus be able to establish and develop relations with Comecon in fields in which the functions of the two organisations are more or less comparable, and in which they might find questions of common interest for joint discussion and subsequent solution. In parallel with this, relations between the Comecon countries and the Community countries would be established and developed in fields such as commercial

policy for which the responsibility rests, on one side with the Community and on the other with the countries which are members of Comecon. These relations would be of the same character as those which the Community maintains with other countries across the world."

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